

# *The* **Management REVIEW**



**SEPTEMBER, 1946**

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**COMMENT • DIGEST • REVIEW**

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*The Industrial Relations Picture Is Changing—*

## **AMA'S PERSONNEL CONFERENCE**

**will preview**

### **FORTHCOMING DEVELOPMENTS**

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**When:** Tuesday and Wednesday, October 8-9, 1946

**Where:** Hotel Statler, Boston

**What:** A Preview of Tomorrow's Collective Bargaining . . . The Status of Personnel Administration . . . Wage Levels and Productive Efficiency . . . Sharing Cost Savings with Employees . . . Employer-Employee Communications . . . Employers' "Internal Public Relations" . . . "Time Out for Briefing" . . . Building a Mature Labor Relations Philosophy . . . Employment Stabilization . . . Problems of the Annual Wage . . . Techniques of Executive Training . . . Revaluation of Training for Management Skills . . . Problems of On-the-Job Training for Veterans

**Who:** Speakers include: Paul Hoffman . . . Guy B. Arthur, Jr. . . F. D. Newbury . . . Elinore M. Herrick . . . Douglas McGregor . . . Martin Dodge . . . William Gomberg . . . George Hodge . . . Andrew C. Kuhn . . . Alan C. Curtiss . . . George Baldanzi . . . Matthew Smith . . . David W. Rust . . . Roderic Olzendam . . . James W. Farmer . . . John R. Bangs . . . Matthew Radom . . . A. T. Court . . . Joseph Smith . . . Ralph E. Flanders

¶ Topics to be discussed at this conference were suggested to AMA by a survey of more than 1,000 companies. To mention but one of the high-spots of this timely review of industrial relations problems, a panel of speakers representing both management and labor will conduct a discussion of union demands of which management has received advance notice. These include: guaranteed annual wages; 30-hour week—six-hour day; time-and-one-half pay for Saturday work—double time on Sunday; elimination of incentive pay systems; industry-wide collective bargaining; and many others.

¶ Write in for your registration today—Full Conference fee, \$3 for members, \$6 for non-members.

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**AMERICAN MANAGEMENT ASSOCIATION**  
**330 West 42nd Street** **New York 18, N. Y.**

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SEPTEMBER, 1946

Volume XXXV

No. 9

Copyright, 1946

American Management Association

Printed in U. S. A.

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THE executive world is by no means immune to lax conduct, and such conduct among members of top management (O. R. Strackbein points out in this month's feature abstract) has an even more detrimental effect on organization morale than if indulged in at a lower level. For example, many top executives, while insisting that supervisors be considerate at all times of their subordinates and keep them informed of changes in rules and company policies, display a complete lack of consideration toward their own associates. This dual code of executive conduct leads to discord and inefficiency. Confusion and cross-purpose planning are prevalent, and internecine warfare takes the place of cooperation toward a common goal.

In the belief that a code of executive conduct is quite as desirable as one for foremen, supervisors, and secretaries, Mr. Strackbein has formulated a "Code of Executive Relations" (see THE MANAGEMENT REVIEW, July, 1946, page 260). While admittedly it is difficult to define what would constitute "conduct unbecoming an executive" in all cases, Mr. Strackbein's code includes some major criteria of good conduct, both positive and negative, to which executives should conform. His article in this month's issue elaborates on the code and describes a number of simple principles and devices which will aid in developing successful executive teamwork.

HOW have white-collar workers fared financially since VJ-Day? According to a survey of office salaries in 342 companies (see pages 373-375), white-collar people have not been so badly treated as some observers have claimed, though the situation still leaves something to be desired. Only about 5 per cent of the companies investigated gave no raises whatsoever to office workers during the past year, and blanket raises were given by 56 per cent of the total reporting.

JAMES O. RICE, Editor; M. J. DOOHER, Managing Editor; ALICE SMITH, Associate Editor; VIVIENNE MARQUIS, Assistant Editor; EVELYN STENSON, Editorial Assistant

THE MANAGEMENT REVIEW is published monthly by the American Management Association at 330 West 42nd Street, New York 18, N. Y., at fifty cents per copy or five dollars per year. Vol. XXXV, No. 9, September, 1946. Entered as second-class matter March 26, 1925, at the Post Office at New York, N. Y., under the Act of March 3, 1879.

Changes of address should be forwarded to the publishers one month in advance, and postal unit numbers should be included in all addresses.

The object of the publications of the American Management Association is to place before the members ideas which it is hoped may prove interesting and informative, but the Association does not stand sponsor for views expressed by authors in articles issued in or as its publications.

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# THE MANAGEMENT INDEX

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## *General Management*

### **A Code of Executive Relations**

**S**TRANGELY enough, men who are good executives in all other respects often fail to accord to their colleagues the considerations that they extend toward subordinates and lower-rank employees in general. Whereas they may be trained in correct behavior toward those who work *for* them, they relax their code when dealing with those who work *with* them. This is not unlike the distinction between "family manners," which may be shocking, and "company manners," which in comparison may be meticulous.

This duality of attitude among executives may arise from an utter unconsciousness of the fact that the principles of relationship are as important within the "family" as outside of it. On the other hand, certain elements enter into executive relations that are absent, or nearly so, from other types of relationships, and these elements require special attention from any executive who would free himself from crippling habits and behavior. For example, there is often rivalry for top positions. An unwary divisional director may develop a mordant jealousy that will warp his judgment and, in fact, kill his one chance to become vice president. There is also the temptation to steal a march on fellow executives in winning the attention of the president or the directorate. A weak executive may even be

inclined to enhance his standing at the top through social channels or other methods that have nothing to do with the quality of his services. There may be a tendency among executives, especially in the larger companies, to form cliques and to seek advancement through a process of log-rolling.

Such practices lead inevitably to friction and discord. The disharmony generated reduces the efficiency of management and, therefore, the profits of operation as surely as would a poorly disciplined workforce, and the ill effects of discord at the top are unfortunate in another sense: They soon reach down into all levels of lower management. Low morale spreads quickly throughout the entire organization.

Obviously such conditions should not be allowed to develop or, having developed, should be eliminated as thoroughly and expeditiously as possible. Avoidance is, of course, more desirable than elimination. Maintenance of good executive relations is by no means an automatic process. Success depends, as it does in nearly all fields, on conscious effort and persistent practice.

There are several simple principles which, if adhered to, will be of great help in avoiding unhappy executive relationships. One of these, as might be expected, is definition of function. Clear delineation of authority and re-

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sponsibility, and development of respect for those lines, will remove a fertile source of discord. Definition of functions, of course, requires thorough understanding of organizational structure. Otherwise, overlapping and duplication of activities will not be eradicated; and disputes will arise through misunderstanding or conflicting ambitions. Two executives who believe each to be poaching on the area of the other, make restive team-mates. A good part of the time and energy of both will be consumed in resenting encroachment or in seeking to forestall it. The latter type of activity, in turn, leads to suspicion and may provoke retaliation. Clarification of the respective fields of authority would remove this focal point of infection and would release the executives for more constructive activity.

In the field of executive activity great care must usually be exercised by the senior executive to avoid showing any vestige of favoritism. It is therefore good practice, for example, to see that all executives of equal rank are accorded equal consideration, so far as office space, equipment, and furniture are concerned. This policy, if adhered to with reasonable care, will remove from the area of controversy a subject that can generate much ill-feeling.

Numerous sources of irritation and conflict can, if examined carefully, be similarly removed from the field of dispute. The principal methods of effecting this removal consist of (1) impersonalizing the application of rules and policies, by making their incidence dependent upon some objective fact; (2) rendering decisions at a higher management level than that at which the dispute exists; and (3) defining scope of activity, authority, etc., as described in a previous paragraph.

Department heads, divisional directors, vice presidents, etc., sometimes

forget that they and their fellow executives are working for the same company and toward a common objective. A point is sometimes reached when executives are more concerned about covering themselves, or protecting their actions against criticism, than in getting things done. Good executive relations would quickly eliminate the mutual suspicion and ill-will that drives men to such tactics. A good executive will eradicate this condition wherever he encounters it. If left unchecked, the ill-will generated by recrimination and bickering often leads to disregard of fair play. In order to place a fellow executive in a bad light, another executive may withhold important information or otherwise impede the efficiency of his adversary. When the bars are down the armory of despicable tricks and stratagems soon bulges from overstock.

There is a solution to this; but success requires one basic transformation—a change in attitude. This is not easily induced, and in aggravated cases a house-cleaning may be necessary. In less extreme cases the change can be brought about by a series of executive conferences, not necessarily prolonged. Persons who are free with accusations against their associates become more guarded in the presence of these associates. Moreover, the explanations that are offered freely during individual interviews are more carefully guarded in the company of those whom the complainant would blame for failure.

In conducting conferences of this character, the point of departure should be the common objective. After this has been established, it is appropriate to begin the real work of the conference with one department head, preferably the one under whom the first of a sequence of operations is lodged. He should be asked to state his problems and to set forth the service he requires

from other departments in order to carry out his duties most effectively. The other department heads should then be called upon in turn to respond. They should be asked to set forth the reasons for their inability to comply with the request of the first department if they allege such incapacity. Other department heads should be asked to contribute their views. It will usually be found that the problems which appeared insoluble yield to the combined suggestions. A record should be made of the points presented and of the agreements reached regarding the action to be taken.

After the first department manager has been heard, the conference chairman should ask the department head next in the sequence to present his problem in a like manner. Again, the other divisional executives should be asked in turn to respond, and a record should be made as in the first instance. The procedure should continue until all departments have been canvassed. The record should then be written up and copies sent to the participants, together with a notice that in two or three weeks, at an appointed time, the conference will be reconvened to determine what progress has been made.

At the second conference the department heads should be asked to report, in turn, what has been accomplished toward the solution of the problems that the earlier conference pointed up. The problems should be taken up in the same order as previously recorded and the respondents asked to state what steps they have taken to meet the requirements of the particular department under examination. Properly conducted, such a conference will elicit an enthusiastic response.

Three or four conferences will usually be sufficient to bring about a complete change of attitude. A vastly improved understanding of mutual problems and difficulties will be developed. Executives will feel more sympathetic toward each other and, in place of internecine warfare, cooperation toward a common objective will be the natural order.

Good executive relations require cultivation no less than any other worthy objective. Relaxation of the code is deadly. Carelessness and indifference will undermine the best of relations in a remarkably short time.

From *A Code of Executive Relations*, by O. R. Strackbein. Parker & Strackbein, New York.

## Seven Remedies for Strikes

**L**EGISLATION alone will not bring industrial peace, but some legislation is needed to establish fair rules with penalties for the violators of those rules. We need rules which protect labor and management in equal proportions and rules to outlaw practices which are harmful to both. The right to strike is a fundamental American right, but strikes and strike *causes* can be minimized.

Many people think that any strike

is just a strike. Actually, strikes fall into seven different categories:

*Strike One: The Organizational Strike.* The intent of this type of strike is to force non-union employees to join the union, and to force the owner to accept a union contract.

This is an indefensible strike. It takes from many of the employees the right to decide whether or not they want to join the union. It is a reactionary strike which no progressive-

mind person would applaud if he understood it.

It is a strike without sense or reason because the union has every right to proceed with organizing the plant along orderly lines fair to all concerned. The Wagner Act provides election machinery by which all employees can register their attitude on joining the union.

*Remedy One.* Amend the Wagner Act to outlaw this kind of strike as contrary to public policy and penalize unions which short-circuit the Act and its orderly election machinery. Penalties can be denial of union security privileges such as maintenance of membership and dues checkoff.

*Strike Two: The Jurisdictional Strike.* This grows from a dispute between unions as to which shall do what jobs—who does what work and who collects dues from whom. There is no moral justification for this kind of kind of strike. It is possible to decide which union a worker should belong to without calling a strike. Such a strike pins the employer and the public squarely in the middle, torn at by both sides.

*Remedy Two.* Labor should establish inter-union jurisdictional committees. It should agree to contract provisions for arbitration of all jurisdictional differences. Where it refuses to do either, then the government must step in.

The National Labor Relations Board has given employers the right to ask for speedy determination by the NLRB as to which union should govern. Employers should use this right. And government should enforce the NLRB finding—if necessary, by filing contempt-of-court proceedings against the offending union and its leadership.

*Strike Three: The Sympathetic Strike.* Here workers go on strike out of sympathy with workers on strike somewhere else, and for no other rea-

son. The sympathetic strike is a paradox in terminology; it is not only an unjustifiable strike but in itself deserves no sympathy.

*Remedy Three.* Outlaw these strikes by clauses written into contracts. For labor's own good, labor should abolish this type of strike. In an atmosphere where unions are accepted, the workers have no need to strike out of sympathy for workers elsewhere.

*Strike Four: The Political Strike.* Rather than by strike, organized labor should express itself concerning political issues by the same means available to other citizens and groups: by petitions, public meetings, press statements, advertisements, direct communications—and, at election time, by votes. Labor should not use an economic weapon to enforce a political demand.

*Remedy Four.* The same as the remedy for the sympathetic strike—outlaw these strikes by clauses written into contracts.

*Strike Five: Public Utility Strikes.* Strikes in the health and safety industries—utilities, communications and transportation—are not like strikes in other forms of enterprise. The public's interest is direct and positive in these industries. Management in such cases, whether the industry is publicly or privately owned, is answerable at all times to government. Even rates and profits and the kind of services are regulated.

*Remedy Five.* Legislation should be enacted for arbitration machinery to settle all disputes without interruption of these vital services. The Railway Mediation Act might serve as a background model for this legislation. If management of these industries is subject to government regulation, the workers in these industries should accept employment with the understand-

ing that they, too, shall be subject to these regulations.

*Strike Six: The Interpretational Strike.* This is a strike resulting from a dispute over the interpretation of the language of a contract. It is only human that the worker and the boss will have differences of opinion as to what certain words and phrases mean. But you can't have plants shut down every time they disagree, or the plants would be shut down most of the time.

*Remedy Six.* All labor-management agreements should provide for arbitration of disputes over contract language, and bar strikes and lockouts based on interpretation. This procedure was recommended to all unions and employers by President Truman's Labor-Management Conference in Washington.

No labor contract *guarantees* successful industrial relations. Both parties must work at the job. Agreement to arbitrate differences is the first step. Industries with full-time, permanent arbitrators, whose pay is split between management and labor, have a relatively easier marriage of interests than others. An example is the International Ladies' Garment Workers Union and the garment industry. The practice of using a permanent arbitration setup is growing. It is winning acceptance by both CIO and AFL unions and by employers. It makes sense; it is a move away from dependence on government to settle disputes.

*Strike Seven: The Contract Strike.* A contract strike results from disputes springing out of contract negotiations. Demands are made by one side and rejected by the other side. The demands are in connection with wages, hours, working conditions. This is the easiest strike to understand. It is also the toughest to settle, because in so many instances it can be justified. Alone among the seven types of strikes,

it can be tolerated as morally right even if economically tragic. Most strikes fall in this classification. The recent strikes in the automobile, steel, coal, and electric-appliance industries were this kind of strike.

*Remedy Seven.* Keep give-and-take talk going until both sides agree on a contract. This is called "continuity of negotiation," which means that representatives of labor and management confer, exchange views and demands, while work goes on just the same.

To accomplish this continuity, some unions and managements have established industry mediation panels composed of equal labor and employer representation. But not all industries have yet achieved mature collective bargaining relationships. Until that goal is achieved, we need our government mediation and conciliation service, strengthened by more well-trained, well-paid, skilled, able mediators.

We have the antidote for strikes right in our hands if we'll only use it. It is honest and efficient collective bargaining. Thus there is only one basic legislative approach to every phase of the labor-relations problem: Will it tend to bring about a more effective functioning of collective bargaining? Will it help labor and management achieve self-government? A strike—any strike—is a symptom that the institution of collective bargaining has somewhere broken down.

Too many of us are likely to think of management and labor as having different objectives. Actually their objectives are quite alike. So are their basic principles and beliefs. Summed up they spell out a greater middle-class economy—more people having more things. Every poll in the country shows that Americans by a vast majority prefer capitalism to any other economic system. This community of interest and



common objectives can be served only through greater production of all those things which make for better living. The consumer, the worker, the investor must all share equitably in the fruits of increased production. Their respective

shares must be lower prices, higher wages, sounder profits. Steady, uninterrupted production will give us these things. Strikes will not.

By ERIC JOHNSTON. *The Reader's Digest*, July, 1946, p. 69:5.

## The Human Factor in Product Design

By JACK W. DUNLAP, Ph.D.\*

THE basic function underlying industry is the development of a product for the use of, or the consumption by, the purchaser. This product is accepted, other things being equal, to the extent that it satisfies the customer's needs. The first problem of the design engineer is to develop a machine which will perform a given function, and once this has been done to adapt it for use by the operator. It is at this point that the human factor enters, and it is here that the psychologist in the field of Bio-Mechanics, or human engineering, can make a real contribution.

The psychologist is concerned with such practical problems as the adjustment of equipment to the individual's body structure and strength, the relationships between the product and the basic senses of sight, hearing, taste, touch, and smell, the training of individuals to use the equipment, and, in certain cases, the selection of operators for the equipment. Essentially this is a job of fitting the machine to the physical, sensory, and mental capacities of the man. Psychologists working in this area need a sound knowledge of the fundamental laws underlying the psychology of the senses, the ability to apply these laws to practical problems, a knowledge of time and motion analysis, and in addition understanding of the techniques of experimental design

and methods of modern statistical analysis.

In certain situations it is not sufficient to apply sound psychological principles to the design and it is necessary, if one is to maximize the efficiency of the worker, to select individuals with special abilities, and then to give them specific training in the use of the device. Like the engineer, the psychologist can sometimes provide an immediate solution to a problem, but in other cases, the best solution can be determined only by controlled experimentation.

### PSYCHOLOGY AND HUMAN ENGINEERING

Management and sales organizations have long been familiar with and made use of the services of psychologists in the field of personnel selection, market research, and advertising. However, it is only in recent years that the value of the services of the psychologist with regard to the human factors in product design is becoming apparent to the engineer. The types of problems to which the human engineer can contribute can be understood best in terms of specific applications.

Again and again a product is developed which, from the engineering standpoint, is eminently satisfactory, but when the human factor is introduced into the situation the product fails. Early in the war a very fine range-finding instrument was pro-

\* Director, Division of Bio-Mechanics, The Psychological Corporation.

duced. It met all the tests with flying colors, yet when it was turned over for field use complaints began to pour in. Engineers hastened to check the equipment and found it still in perfect condition. The trouble was not with the range finder but with the operators. The instrument was so complicated and required such specialized abilities that only one man in 20 could be found who could master it. The problem here was not one of efficiency, but of human limitations. This instrument had to be redesigned in terms of the abilities and skills of the average enlisted man.

A number of years ago a company developed a new type of floor covering. The covering was long-wearing, could be produced in a variety of colors and designs, and without question was attractive. Unfortunately, shortly after the covering was installed the manufacturer began to receive complaints from certain purchasers that the covering was too bright and resulted in eye strain. Extensive studies were carried out to measure the brightness and it was found that the light reflected had been properly calculated and adjusted. The floor coverings would give identical photometric readings, yet individuals maintained one was too bright. A psychologist was called in to study the problem. He applied a well-known laboratory technique to the problem and was able to determine that in certain cases, though the light reading from two coverings was identical, a preponderance of individuals judged one to be brighter than the other. Further investigation revealed that the greater "apparent" brightness of a covering was a function of the pattern employed. The psychologist was able to demonstrate that certain fundamental rules could be applied to patterns to control the "apparent" brightness of the floor cov-

ering. This was a case where the precise measurements of the engineers had to give way to the reaction of the human organism.

#### OTHER PRACTICAL APPLICATIONS

The problems of illusion are studied by the magician for the purpose of amusement; the psychologist studies them not only to determine their fundamental laws, but on occasion to put these laws of illusion to practical application. It often occurs that a company may find it to its advantage to make a given product appear larger or smaller than it actually is. A certain golf ball manufacturer conceived the idea that if a ball appeared larger than it actually was it might be easier for John Public to hit it. The problem was to determine whether different markings on the coat made the ball appear larger. Here was a problem where two objects have the identical measurements, yet the individual reacted differently to them. A psychologist took balls with various types of coverings and placed them in pairs on a fairway. Individuals were asked to make a judgment as to which was the larger. Sufficient data were accumulated to demonstrate beyond doubt that one covering made the ball appear larger. Whether this illusion increased the preferences of golfers is still another problem.

Certain problems in the field of vision also fall in the domain of the psychologist. Investigations have been made of the relative legibility of information printed in various color combinations such as black on white and black on yellow, to mention only two. A number of states have applied the result of these studies in the color combinations of license tags, but other states still use combinations of color which make it almost impossible to identify the number at any reasonable distance. Laboratory studies on the



relationship between the thickness of line and the height of letters have resulted in the expression of certain fundamental laws regarding the legibility of printed material, and these laws have been applied to the selection of the proper style of type for printing various kinds of material. The psychologist has also made studies to determine the optimum length of line and the spacing between lines to maximize the ease of reading.

The preparation of manuals of instruction and other training literature is another field in which the psychologist has been able to assist the engineer. Such manuals often are prepared not only in technical language, but with general vocabulary level much higher than that of the individuals who are to use the manual. Here the psychologist can draw on the extensive research done in the field of readability of printed materials to simplify the language in the manual. Further, the basic laws of learning and techniques of educational psychology can be applied to the material so as to present it in the most intelligible form for assimilation by readers for whom it is designed.

#### IMPORTANCE OF SENSORY IMPRESSIONS

In the construction of dials and instrument faces the psychologist can be, and has been, of assistance in solving problems with regard not only to the legibility of the markings, the best type of scale, i.e., linear, non-linear, critical or continuous markings, with regard to speed and accuracy of reading, but also in such problems as the effect of glare, reflection, and lighting on night vision, to mention only a few. Closely allied to such studies is the work done on instrument panels to determine the proper placement of various instruments and thus maximize the speed and accuracy with which the operator can secure data from the instruments.

In the field of audition, for example, two radio speakers may be designed efficiently, yet listeners will have a definite preference for one of the speakers. The measurement of such intangible factors as "color" and "warmth" of tone in terms of their appeal to people falls in an area in which the psychologist has done a great deal of work. It is well known that different cabinet materials and the position of the speaker affect the "color" and "warmth" of tones. The measurement of the acceptability of the product in terms of these two factors is a type of problem for which the psychologist is peculiarly qualified.

In another case, the question was raised by one organization regarding the advisability of the installation of automatic volume control in radios. The first question the engineers proposed to the psychologist was, "Do radio listeners need and want volume control?" Since it was found that listeners desired automatic volume control, the next question was, "How sensitive must the control unit be?" Basically the problem was to determine at what point individuals would adjust volume control, regardless of the level at which they initially set the volume. It was determined experimentally that the volume could vary as much as four decibels before the listener would readjust the volume. The psychologist thus was able to provide the engineer with definite limits of sensitivity when designing the automatic volume control unit.

The special application of sound in terms of music to problems of production has been demonstrated again and again in plant situations. Music has been used to pace production, to improve morale, and to provide relaxation. Music as such may or may not be good in a given situation, but music carefully selected to meet the require-

ments of a particular situation can be an extremely potent factor. There are, however, some situations in which any form of music is harmful to production.

That a pleasant sensation to the sense of touch has a commercial value has long been known to the textile industry. This sensation of pleasurable-ness can be measured and under the proper circumstances the results turned into a real profit. The Psychological Corporation at the request of a rayon manufacturer carried on an investigation to determine whether purely tactile and kinaesthetic distinctions could be made between silks and rayons and to determine relative preferences of individuals for the samples. The subjects for this investigation were blindfolded and forced to rely on the sense of touch alone. A preponderance of the subjects chose the rayon fabrics over the silk.

All through the investigation the subjects reported a tremendous liking for a new rayon fabric that had not yet been released to the market. The judgments of these blindfolded subjects were later confirmed by the tremendous popularity and sale of this particular fabric.

The psychologist does not even neglect the sense of smell as a field for the application of psychological techniques of measurement, as witnessed by work on deodorant creams and perfumes. In a study of the relative effectiveness of two deodorant creams subjects were exercised and samples of perspiration obtained with and without the use of deodorants. An index of the intensity based on the time it took an observer to detect the odor under certain conditions was developed. Clear-cut differences were found between the two creams studied with regard to their effectiveness in control of perspiration odor. These problems of pleasurable-ness with regard to colors, tones, odors,

and sensations of touch all fall in the domain called "hedonic psychophysics" by the psychologist—a most forbidding name for every-day experiences.

#### MAXIMIZING CONSUMER ACCEPTANCE

A great deal has been written about color and its use, but there is relatively little scientific data available regarding the application of color to product design. One of the simpler applications of color in product design is the current trend of indicating danger areas on equipment by the use of red. Under certain conditions, however, other colors or combinations of colors, will prove to be more effective as a warning mechanism.

It is well known that color can be a potent factor in sales, but what is not so commonly recognized is that often the proper color or color combination is specific to the product or the situation in which it is to be used. A number of years ago a bank placed before five different color panels booklets describing its services. After making allowances for the positions of the panels it was found that more than twice as many booklets were selected from one panel than from one of the others. Percentages based on the poorest panel were 100, 111, 120, 182, 210 per cent. The implication of this simple experiment for problems of display, packaging, and advertising are too obvious to require comment.

Just before the war an investigation was carried out which revealed definite sex differences with regard to food preferences and aversions. Unfortunately, studies to determine the basic factors contributing to such aversions, and conversely to positive preference, were interrupted. Further investigation should identify broad groups of factors such as taste, odor, color, structure, size, and form, which can be broken down still further. Some work has been done, which, curiously

enough, indicates size to be a factor in taste in certain foods. Finally, weights could be attached to these various factors which would permit one to "build" foods and beverages so as to maximize their probable acceptance by the consumer.

#### INDUSTRIAL APPLICATIONS

The work of the time and motion analyst and of the psychologist at times merge until it is impossible to tell where one begins and the other leaves off. Not infrequently a time-motion analysis reveals a pattern of movement which, while entirely satisfactory from the engineering point of view, is not at all satisfactory to the operator even after a period of training. The new pattern of movements may set up certain inhibitory responses in the individual due to previous habit patterns or to physical idiosyncrasies of the worker. These inhibitory response patterns result, to a greater or lesser degree, in subconscious blocking on the part of the operator. This in turn leads to indecision and a lack of decisiveness in movements which result in slower production than would be expected from the time-motion analysis. The task of the psychologist is to locate such mental blocks and either to work out methods for removing them or to work with the time and motion analyst to determine other patterns of movements which are acceptable to the operator.

In designing any machine that is powerful enough to injure the operator, other individuals, or adjoining equipment, considerable thought should be given to the mental and emotional effects upon the operator and attempts made to eliminate them, or at least to control and influence such effects. One of the strongest emotions that such equipment gives rise to is that of fear, and this fear can result not only in inefficient production but actually may

result in injury to the individual or to misuse of the equipment. Whenever equipment is unusually large, powerful, emits sudden loud noises, or starts quickly, there is present a basic cause for fear. No one is afraid of a pair of tin snips, but most people are afraid of power shears such as are found in metalworking and printing shops. The problems here fall into two general classes—those which deal with modifications of the equipment, and those which deal with the education and training of the individual. In the first class of problems the psychologist can indicate the sources of emotional disturbance to the engineer, and in the second class of problems he has the techniques and experience for adapting and adjusting the individual to the equipment.

The problem of product design is far broader than that of producing a machine which can do a given job, or product which will be bought. In certain problems, the designer must consider the human factors of taste, touch, smell, vision, hearing, the physical structure of the average user, the present motor habits, and in certain cases even the emotions aroused in the consumer.

The problems in which the psychologist can assist the engineer in product engineering are almost as widely varied as the products themselves. Fortunately, these problems fall into certain broad groups, and usually they are amenable to one or more of the techniques of the psychologists. Nevertheless, the field is so broad and the varieties of special knowledge so great that no one psychologist can hope to be an expert in all. However, when a psychologist, who is specially trained in the field in which a particular problem falls, pools his knowledge with that of the product engineer, they make, indeed, a powerful team.

# Office Management

## Purchasing Office Supplies

**E**FFICIENCY is the prime consideration of the American Brake Shoe Company's purchasing staff in keeping adequately supplied the offices of the firm's nine divisions and 59 plants throughout the country. Indicative of the important policy-making functions of the purchasing department is the fact that it does not attempt to buy all supplies for its many factories but rather, through scientific tests of quality and performance, guides the purchasing of plant agents or chief clerks, leaving the selection of many supplies to their judgment. Buying is centralized only when obviously advantageous.

Such small items as pencils, erasers, etc., are bought by plant purchasing agents from local stationers in plant neighborhoods—a policy that builds much valuable good will. Local purchasing of items used in small quantities not only obviates the need of carrying stocks in high rental space in the New York offices but also aids in developing the responsibility and judgment of local purchasing agents. Similar supplies for the main offices are bought from large commercial stationers in New York.

Costs are materially reduced through centralized buying in volume of letterheads and special and standard forms—needed by all plants in substantial quantities—by the purchasing department, to which requisitions are sent by plant agents once a month at a specified time. Upon receipt of the requisitions, the department prepares a complete list for the New York printer, who ships to the plants immediately.

Smaller plants may require as few as 100 forms of certain descriptions annu-

ally. In such cases, the purchasing department effects a saving by ordering a larger quantity—5,000, for example—and arranging for shipment from the printer in lots of 100 or 200, depending upon the size of the plant.

The department's policy-making function and the careful tests it conducts are well illustrated in methods controlling purchase of typewriters and other business machines for all plants. With the major concentration of machines in the New York offices, the central purchasing department has an obvious advantage in observing performance over a local plant, which may have no other test of performance than the salesman's demonstration. Consequently, the department specifies the purchase of certain makes of machines that prove most efficient for its purposes and, as requisitions for machines are received from plant agents, places the order with the manufacturer's New York office.

Plant purchasing agents, however, may contact local salesmen for machines approved by the purchasing department. In requisitioning, the plant purchasing agents frequently indicate a certain model or choice of type that the local salesman has demonstrated. Such a preference is followed as far as possible, if the make is an approved one.

If the local salesman has demonstrated equipment, his interests are carefully regarded. When the purchasing department places the order with the manufacturer, a copy of the order is sent to the salesman—cooperation that gains good will so essential to the local plant agent in obtaining prompt, efficient servicing of new machines.



An extra copy of every purchasing order that a local plant sends out is forwarded to the central purchasing department to be checked for conformity to department policies. If the order is for a used machine or for office furniture that the local salesman has available, the department may inquire about its condition before approving.

All obsolete, idle equipment is listed annually by plants, and a complete list with the locations of such equipment is distributed by the main purchasing department to all the plants. Careful observation of second-hand market prices sometimes enables the purchasing department to sell discarded machines, like other obsolete plant equipment, at a sum well in excess of the trade-in figure.

The department's own organization and operating system are as efficient as its buying policies. Its operation provides for reports by the general purchasing agent to the vice president or president. Its personnel of 25 to 30 includes expert buyers who discuss purchases and place orders by long distance telephone—these direct contacts being actually economical in saving time and insuring accuracy. Telephone and dictation do not conflict, as buyers handle all routine dictation through dictating machines. Only material requiring ex-

planation is usually dictated. An inter-office phone and buzzer system in the purchasing department—with an automatic board and extensions to all the buyers' offices and secretaries' desks—proves particularly helpful when files are needed quickly. A Teletype operator handles all incoming and outgoing telegrams as well as the duties of invoice clerk. All invoicing and billing are done with electric typewriters, this equipment having proved most satisfactory for uniformity, especially when eight or 10 copies are required.

A policy of the department, applied in its own as well as other offices, is to decentralize supplies storage as far as possible. Departmental storerooms require less space than do general storerooms—an advantage in a high rental area. They are economically operated, since a salaried storekeeper is not required. The buyer of office supplies has charge of the purchasing department's storeroom. In every case, the person in charge takes a monthly inventory.

In buying desks, filing cabinets, and similar equipment, the department makes a practice of having samples set up in the office for practical test.

By GRACE BUCKLEY. *Office Management and Equipment*, May, 1946, p. 35:4.

## Office Salaries Since VJ-Day

MANY tears have been spilled over the plight of the white-collar worker in the past year. To learn what has happened to salary rates, information was gathered from 342 companies in a recent Dartnell survey. These companies employ a total of 55,231 white-collar workers, and recent changes in their compensation policies may be interpreted to indicate a possible trend toward greater liberality.

Of the 342 companies cooperating in this study, 94 had more than 100 office employees; this is 27.5 per cent of the total. There were 105 companies which had from 25 to 100 office employees, 135 which employed less than 25 office employees, six which employed two office workers each, and two which had but one office employee.

This group of employers was asked:

*What raises have been awarded of-  
fice workers since VJ-Day?*

*Where adjustments were made, were  
they individual or blanket raises?*

*What percentage increases have been  
awarded in cases of blanket raises?*

Of this group only 18 companies, or 5.3 per cent, have given no raises whatever, either as individual adjustments or blanket raises to all. This would seem to refute the claim that the white-collar people have been badly treated or that unionization is necessary to obtain fair treatment from employers for white-collar, non-union workers.

However, when the figures are further broken down, the picture is not so encouraging. Blanket raises of varying amounts have been given since VJ-Day by 191 companies or 55.8 per cent of the total reporting.

Further studies of this group show that 151 or 44.1 per cent of the total gave blanket raises by percentages, ranging from 5 per cent to a top of 64 per cent.

The largest number in this group to agree on one figure for a percentage raise was the 67 companies which gave raises ranging from 10 through 14 per cent. Broken down the 151 companies which awarded blanket raises in percentages were as follows:

- 9 awarded raises of 5 through 9 per cent
- 67 awarded raises of 10 through 14 per cent
- 52 awarded raises of 15 through 19 per cent
- 17 awarded raises of 20 through 24 per cent
- 5 awarded 25 per cent or more increase

One company declined to report the amount of percentage raise; and of the five which gave raises of 25 per cent or more, one gave 25, one company re-

ports raises of 30 per cent since 1941, and one has raised the rate by 30 per cent since VJ-Day, while one gave 50, and another gave 64 per cent raises.

Forty companies, or 11.7 per cent of the total reporting, gave raises in terms of hourly, weekly, monthly, and annual amounts. Of this group 21 gave hourly-rated raises, three gave weekly raises, 14 gave monthly raises, and two companies raised annual rates.

Twenty-one companies reported varying amounts of hourly raises to all office employees. One company raised rates five cents per hour; another, five to 10 cents per hour; still another, eight cents per hour. Two gave 10 cents an hour raises, while one made it 14 cents, four made it 15 cents, four more made it 18 cents per hour, and seven used the "magic" figure of 18½ cents per hour.

Three companies expressed raises in weekly terms, one awarding raises of \$3 per week on a blanket basis; one, \$5 per week; and one \$6 per week.

Companies reporting blanket raises in monthly terms totaled 14, with one giving an \$8.80 monthly raise, one giving \$10 per month, and two each giving \$15, \$20, and \$25 per month raises to office employees on a blanket basis.

One company in the \$25-per-month group did not extend the raise to employees earning more than \$300 monthly. There were also two companies which upped monthly wages \$27.50 and \$30 respectively, and four companies which increased monthly rates by \$32.

One company reports a \$200-per-year blanket raise to all office workers; another awarded \$300 per year to all office employees.

There has been considerable reduction in working hours. Many companies have reduced hours of work for office personnel from 44 to 40 hours



weekly. Some of the raises given were to bring up take-home pay to the same figure for 40 hours' work as was formerly paid for 44 hours' work.

Some of the comments on this phase of salary adjustments for white-collar workers were: "We cut the workweek from 5½ days to 5 days with no cuts in salaries, in addition to making individual adjustments." Another company with 1,200 office employees, which gave blanket raises of about 7 per cent, changed working hours from 37½ to 40 hours weekly. Another company reports, "We gave a 15 per cent raise to compensate for reduction of workweek from 44 to 40 hours."

One company employing 300 workers gave a 15 per cent raise to all employees except officers and staff. The policy of holding down salaries of the higher bracket people was shown in one company's raise of \$6 a week or 15 per cent—whichever was greater—with a limitation of \$500 a year as the maximum amount of individual increase.

Some observers point out that raises of less than 10 per cent are almost certain to be followed by demands for further raises in the near future. These business men think it is best to

give a raise of at least 10 per cent, if any is to be awarded. This is, of course, in cases of general adjustments. Where there are definite reviews of all salaries, with raises coming more frequently than once a year, the 10-per-cent figure would scarcely apply.

Many executives feel white-collar workers are deserving of adjustments at this time, and that management is in error when it tries to maintain a staff without increasing salaries. The current agitation regarding price controls, plus the threat of steep price advances, is causing much discontent in many quarters. Almost without exception, white-collar workers caught with rent advances, and having little opportunity to move to hold down rentals, are going to demand salary increments.

Whether these demands will be successful in obtaining raises will, of course, depend on several factors, such as the state of the local labor market, the number of new employees available to replace those who leave, and the individual worth of each worker who joins in demands for raises to keep pace with any increases in rentals or other living costs.

*American Business*, August, 1946, p. 8:4.

### Checking Waste in Phone Calls

**N**EEDESS long-distance telephone calls and telegrams are discouraged by a comparative time and rate schedule on the back cover of the telephone directory in General Electric's Schenectady factory. Schedule shows pick-up and delivery time for letters to GE offices in 63 cities next to a cost schedule of three-minute toll calls and telegrams. In boldface type are mail times to 30 of the 63 cities to which overnight first-class mail service is available—at three cents instead of 63 cents to \$2.81 for phone calls.

—*Modern Industry* 8/15/46

• **SHORTCUT—CHAIN FEEDING OF ENVELOPES:** Type the first envelope, then feed backwards; place the second envelope directly behind the first—between envelope and platen—and again feed backwards and type. Continue this until about a dozen have been typed and envelopes will remain in sequence.

—*NOMA News* 1/46

# Personnel

## Strategies of Union Negotiations

UNION representatives are usually well grounded in the psychology that should be employed in negotiating a contract. It is their bread and butter, their everyday work. However, management's representatives who are as well trained, who can put themselves in the union's place and bargain objectively, and who can foresee and understand the methods employed by the union's representatives have an equally good chance to do a successful job of negotiation.

In addition to the many specific details which a management negotiator must bear in mind when working out a contract, there is a series of general rules which must not be overlooked. By adhering to them he will keep himself and the organization he represents from being placed in an embarrassing and often costly position.

There is always some sparring and "feeling out" on the part of each side at the beginning of negotiations and it is at this time that a slip may most easily be made. The labor negotiator who devotes all his time to labor-management relations may be more alert than the men on the management side whose attention is often diverted to other phases of the business. As a consequence, an alert labor organizer may detect very quickly an opening on which to base what may have seemed a less hopeful case at the outset.

There are five major "don'ts" for negotiators. A discussion of these, with specific examples, may be helpful.

1. *Don't allow yourself to be caught off guard.* For want of a specific demand, it is not at all unusual for a

union to reopen the entire contract at expiration time, including demands on wage and fringe issues which would raise payroll costs more than 100 per cent. The terms may be preposterous enough to anger the management spokesman to a point where there will be little room for reasonable thinking. An untimely statement made in haste at this point may provide the basis for future union recrimination at a time when it is least expected.

In a situation of this nature, it is far wiser to keep one's sense of humor than to give vent to outraged feelings. By drawing from the same bag of tricks, so to speak, as union agents use in preparing the contract, management may turn the tables and seize the initiative. In this connection, it is far simpler to dismiss the demands and to state that presentation of a counter-offer will be considered when a reasonable contract is submitted. Labor leaders have learned by experience that an angry employer is more likely to be caught off guard than one who is calm and deliberate. The latter generally knows whereof he speaks and remembers what he has said.

2. *Don't make hypothetical commitments for an uncertain future.* There are occasions when discussion of a point in dispute should end with a clear statement of rejection. Yet management representatives have been known to embellish the refusal of the demand with rosier promises for the morrow. For example, where a union asks for a union shop, although only 60 per cent of the employees have signed union cards, it may be stated that there would

be no objection to the union shop if 90 per cent of the employees were members. A management with more than one shop would have only itself to blame if this commitment came back to roost at a branch shop where 90 per cent *had* signed, or if the same statement were brought up in future years as a rebuttal to any management declaration of opposition to the principle of the union shop.

In labor-management relations, possibly more than in other fields, almost anything can happen in the future. We cannot foresee the turn of mind the public will take, and we do not know whether a group of today's employees who may be opposed to unionism may find reason to turn completely about-face tomorrow. Like public sentiment, employee opinion is extremely fluid. Commitments, whether on wages or conditions, should be to the point. It is unwise to make promises today for tomorrow, for one cannot foresee the conditions under which the time of fulfillment may arrive.

3. *Don't give rise to false hopes.* This admonition is in some ways a corollary to the preceding one, save that it applies to present conditions in current negotiations. For example, some managements have promised consideration of demands which they had no intention of granting. Strikes have often followed false hopes built on preliminary committee reports to union memberships which implied that management would do something about an important demand. Management's eventual negative reply cannot fail to register as an arbitrary reversal of its earlier stand. It is totally unwise to make any comments that may possibly give rise to misunderstanding.

To avoid making this false step, it is advisable to listen to the entire list of demands, and to make a counter-

proposal in lieu of them all. In this way management is less likely to be placed in the position where it has agreed to go along with some of the demands—which settlements have been accepted and regarded as closed by the union—without the union making any move toward conceding the remainder. Unless an unsatisfactory union demand is firmly and definitely refused, union leaders tend to feel that they can obtain at least a partially favorable settlement, reasoning, of course, that a small concession is better than none at all.

4. *Don't make statements of finality before you can stand back of them.* The position of the management which makes too many final offers is not unlike that of the boy who cried "Wolf!" Where a final offer has been followed by successive offers in the past, the union is not likely to believe that there won't be something more in the cards if negotiations are drawn out.

It is a good rule for any management to make only final offers that *are* actually final.

5. *Don't leave contract phrasing in the air.* Negotiators commonly fail to reduce an agreed contract clause to specific language. Agreement in principle may cause trouble unless all parties clearly understand just how far the principle goes on each side.

When negotiations are spun out over a long period of time, memories tend to grow somewhat hazy. Minutes taken by one side are not always willingly accepted as accurate by the other. There is no substitute for the tried method of dictating the clause with all parties initialing at least a rough draft of it to verify accuracy before the meeting adjourns. If necessary, accurate copies may be forwarded to participants shortly thereafter or distributed at the next joint session. By following this procedure, the parties can avoid dis-

avowal after a change of heart on either side. There have been times when failure to take this precaution has inspired a last-minute drive to win one more concession by stirring up just such a controversy.

In conclusion, it can be stated that management need seldom, if ever, be caught on a limb during negotiations if it is wide awake. An alert management is usually respected by labor

spokesmen who know that they will get just as much in dealing with such a negotiator if they leave out the superfluous window-dressing and get down to essentials. In the long run, it will mean time saved for everyone and, more important, will provide the basis for sounder labor-management relations.

By SAMUEL STEINMAN. *Industrial Relations*, February, 1946, p. 12:3.

## Two-Way Information Flow Pays Off

**G**OOD industrial relations consist of far more than a good information program. Thompson Products, Inc., Cleveland, has a sound, friendly employee policy. And Thompson's hard-hitting information system makes it certain that that policy is understood and that no one, in or out of the organization, misinforms Thompson workers about the company.

Thompson's information policy is not one-way, either. The company gives employees all the news it can—first. In return, it gets from employees all the information it can about Thompson workers and how they're thinking.

The media Thompson uses are available to all companies—and are used by many. But its use of them is unique. It insists that employees have the story first; it even insists that its workers get bad news from the company first.

Bulletin boards are often keys in the timeliness technique. When newspapers and printers are waiting for final figures from the auditors to hit the streets and mails with the annual financial statement, the first release is a bulletin on the boards. Thompson workers see the report before their wives can possibly read it in the newspapers.

There are a bookful of illustrations

of "plain talking" growing out of Thompson's perennial scrimmage with union organizers attempting to organize the plants. When an ex-president of the UAW local at Ford came to Cleveland charging that Thompson was guilty of "bossism," "dominating workers," "imposing restraints" on them, and offered to "liberate" them from bondage, Thompson published a series of papers called "Let's Have the Truth."

First step in the campaign was to expose the organizer's record, showing that his administration at Ford had created constant trouble in spite of outstanding working conditions. "Let's Have the Truth" showed that the organizer had been ousted from office in the Ford local with many a charge flying after him. Then it analyzed his complaints and promises, showing there was little truth and little hope in them.

Offsetting all union offers, "Let's Have the Truth" frankly analyzed Thompson's record of fair treatment. It pointed out that production was scheduled to rise 100 per cent in some departments, up to 500 per cent in others—offering TP workers opportunities a union could never win for them.

The CIO didn't like such tactics. It



used a meeting at which President Crawford spoke—one of a frequent series in which all TP workers hear executives speak on company problems—as the basis of a complaint questioning the right of Crawford to address his employees.

The complaint resulted in a hearing before the U. S. Circuit Court of Appeals in Cincinnati—which sustained the right of a president to address his employees in such meetings on the basis of freedom of speech.

Thompson supervisors were kept fully informed on the organizer's attempt by a series of informal letters giving them all the story well before it broke in the newspapers. Similarly, letters signed by the president, vice president in charge of personnel, and other executives were sent employees at their homes to inform them—and to be sure that the organizers could not misinform them about the company.

Because it is no longer possible in the sprawling plants to maintain the individual contact possible when the personnel manager knew every man, Thompson has zoned its plants. Each area contains about 1,000 people and has a personnel supervisor. He is perhaps the best direct contact management has in keeping informed on conditions and problems in the working force, but he attempts to work as far as possible through supervisors, to maintain and strengthen their position. He has the same responsibility for his territory that the personnel manager has for the plant.

To check on the effectiveness of information flowing down from the top, on employee policies, and on the understanding of policy, Thompson has polled its workers. It "led with its chin" in 1944 when, using employees as judge and jury, it placed its policies on

trial. Results were gratifying. Forthcoming suggestions and criticisms were later to influence policies, but, in general, TP people liked Thompson, liked its policies, and appreciated the newspaper, handbooks, annual report, and other information services.

Plant executives keep in touch with employee opinion in another way. A series of dinners—paid for by the company—are held so that every employee meets his supervisors, other executives, and company officers across the table at least once a year. After dinner, a "board of experts" is called to a speakers' table to answer all questions TP workers can shoot at them.

The company welcomes employees' questions or criticisms. There were complaints on the incentive system before TP published "Let's See What Makes You Tick"—a booklet to explain the plan to employees. Whether employees read it and were happy about the plan, or whether they simply assumed that because the company was willing to tell all, the plan must be all right isn't known. It is known, however, that complaints about not understanding the plan dropped almost to zero.

Foremen, too, are informed—fully and in advance of general employees. They receive bulletins, for instance, usually a little more complete than those going to workers, a few minutes before workers get theirs so they can be prepared to discuss problems intelligently. The company believes such bulletins are one of the best means of stimulating interchange of information and are important in keeping in touch with employee opinion.

Monthly meetings are a part of the never-ending training program for supervisors. President Crawford and executives discuss all phases of company

operation. Outside speakers occasionally bring foremen the latest developments in their specialties.

All this adds up to the closest possible integration between management and men. Thompson employee policies are progressive—well above the average for all industry. Combined

with the two-way communication system, the frank statement of facts, the active interchange of information, Thompson's employee policies work outstandingly well.

*Factory Management and Maintenance*, May, 1946, p. 108:5.

## Placement and Performance of Disabled Workers

**R**ESULTS of a survey to compare job performance of disabled workers with that of able-bodied employees, conducted by the Bureau of Labor Statistics of the U. S. Department of Labor in cooperation with the Veterans Administration, reveal that, of the first 1,000 cases studied, the performance of handicapped workers compares favorably and in some respects is actually superior. The survey indicated that selective placement of impaired workers prevails, almost two-thirds of the plants reporting that applicants were placed in jobs which had been analyzed for their physical requirements; about 17 per cent indicated that the handicapped job applicants had been given physical examinations but had not been placed on the basis of job analyses; and almost the same number reported that they had job analyses but did not give the applicants preemployment physical examinations.

Many large plants have well-staffed medical and personnel facilities. Some also have special training programs for disabled workers. Small plants find it more feasible to base their selective placement upon the results of careful examination of applicants by an industrial physician.

Where no physical examination is given, the United States Employment Service makes available to employers

the aid of specialists in placement of the handicapped. Small firms have learned that when their plants do not have job analyses a USES staff member can be enlisted to do this job for them. Throughout the country, employers have found that USES not only arranges careful selective placement for all registrants seeking employment, but also assists the employer in filling his personnel requirements.

The study revealed that a few employers made slight adjustments in some machinery to adapt it to the needs of impaired workers. This, in many instances, proved helpful also to able-bodied employees.

In the current survey, studies of disabled workers showed that they were 3.6 per cent more productive per working hour than non-disabled co-workers. Workhours lost because of illness or for other reasons amounted to 3.2 per cent for the disabled and 3.3 per cent for the non-disabled. Work injuries were about equal, both handicapped and non-handicapped employees averaging 20 work injuries per month per 100 workers—with practically all requiring only first-aid.

Selective placement is an important factor in considering accident-proneness. The study showed that where care was taken in placing a disabled



worker on the right job the accident frequency rate was lower than for the able-bodied but was higher in plants without such placement methods.

The study showed also that for every four disabled workers who voluntarily quit their jobs, 10 able-bodied workers quit.

The employer survey revealed that in comparison with the able-bodied, 55 per cent of handicapped workers had as good a record, 39 per cent had a better attendance record, and only 6 per cent had worse absenteeism records.

These findings were substantiated by the results of an earlier questionnaire, replies having been received from 450 manufacturing plants with a total employment of about 1,700,000 workers,

of whom 88,600 were reported to be seriously disabled:

#### RECORD OF DISABLED VS. NON-DISABLED WORKERS

	As Good or Average	Superior	Inferior
Efficiency .....	83%	7%	10%*
Work Injuries ...	38%	51%	11%
Absenteeism .....	44%	49%	7%
Labor Turnover ..	31%	58%	11%

\* It is impossible to indicate the extent to which this percentage was affected by improper placement methods.

It follows that with careful placement the disabled employee can do as good a job as his able-bodied co-worker. Anxious to prove himself, he often turns out to be a better, steadier worker. The important thing is to find out what the impaired applicant can best do, then place him on that job.

*The Labor Market*, March, 1946, p. 11:2.

### Manuals for Factory Training

**S**ALES engineering and accounting departments have for years used manuals for training purposes, but this procedure has been pursued less frequently in the training of factory help.

In April of 1944, Walter Kidde & Co., Inc., instituted a new training program. The management, like so many others, realized that the basic weakness of its previous programs had been failure to follow through. After much investigation, however, training leaders had hit on the idea of writing a manual at the completion of every training job for use in refresher sessions.

The procedure for gathering the material for the manuals is as follows: When a training need is recognized, and the training department is called in, the material to be covered is gone over with the head of the department in which the training is to be given. At this time the individuals who are most familiar with the subject are selected to do the training. These individuals are then contacted, and the material which they are to cover is more thoroughly outlined and broken down. Finally, at the training sessions, notes are taken on the material as it is presented. This three-way check makes certain that all information is covered. At the completion of the training sessions, the training department combines and condenses all material presented and puts it in manual form.

To date the company has compiled manuals for 20 different training courses. Its experience with them as an effective tool for follow-up has been excellent.

—*Industrial Relations* 2/46

### Union Wages and Hours in Printing Trades

**H**OURLY scales for union printing-trades workers in 75 cities averaged \$1.355 on July 1, 1945 (\$1.541 in the newspaper branch and \$1.261 in the book and job division). This was a gain of 1.4 per cent for the industry as a whole since July 1, 1944. Between July, 1945, and February, 1946, further increases ranging from 5 to 40 cents per hour were negotiated. Almost three-fourths of the raises amounted to at least ten cents per hour. The straight-time workweek for the industry averaged 39 hours. Practically all workers were entitled to time and a half for overtime, and three-fourths had double time for work on Sunday or the seventh consecutive day.

—*Monthly Labor Review* 4/46

# Production Management

## Just How "Modern" Is Your Plant?

**F**EW companies can afford to scrap all machines, abandon present plants; but *all* can recheck plant and equipment, tighten procedures for spotting obsolete items, streamline the system for replacements. This must be done because labor costs are up and will go higher; buyers will resist any comparable price increase; profit margins will be narrower. Competitors are testing new facilities. Many may have benefited from wartime additions to machinery or a war-built plant. Makers of machinery and equipment are ready with improved designs, if they're not already built, they're on the drawing boards.

Also, there may be tax reasons for making replacements now. Big and little companies can use excess-profits carry-backs to write off obsolete machines while interest rates are at an all-time low for new-equipment purchases.

Most plants have more than one obsolete facility for one or all of these reasons: Failure to recognize obsolete items; lack of easy-to-use yardsticks for making replacement decisions; financial thinking bogged down in book values, depreciation, too-short pay-off requirements; inadequate selling by equipment suppliers; high taxes, plus low depreciation rates allowed by the Treasury which makes it hard to earn enough on improved facilities to pay the bills; labor resistance to the introduction of more efficient equipment.

Some of these barriers—such as labor resistance and government policies—will change only with time. But these practical starting steps *can* be taken now:

### 1. *Expose Obsolete Facilities.* Fix

responsibility for replacements, and select men who are new-equipment-minded. Too often this responsibility is on plant engineers or master mechanics who have a knack for keeping things going but who may not be alert to the need for replacements.

Clear the track so that replacement suggestions will reach action levels quickly.

Don't overlook modernization in plant services. The natural first step is to check up on production equipment; but there may be equally good cost-cutting possibilities in better ventilation, lighting, modern dust-control equipment, and the like.

Keep a close watch on spoilage, maintenance costs, production bottlenecks.

Keep in touch with methods of suppliers and competitors or other industries with similar operations. This sounds like a tall order—but it's vital in avoiding profit-eating misfits.

2. *Consider Automatic Checkup.* While there is no slide-rule formula for determining replacement needs, some companies have plans that force regular review of facilities or call for automatic annual replacements.

Some companies spend each year's depreciation reserve on new equipment. This fosters the habit of adding improvements each year rather than waiting for a boom period, and it makes the entire plant replacement-minded.

Others use an age figure as an automatic tickler system to force a checkup, on the assumption that machine tools are obsolete after 10 years. On its tenth birthday each machine is compared painstakingly with a new model. Few pass the test.

Several other companies have a tool supervisor for each department who turns in at least one complete annual report on his facilities, and more frequent replacement recommendations if warranted.

3. *Make Decisions Easier.* A replacement decision is rarely cut-and-dried. The outlook for company sales, plans for changes in product or production methods, plus the possibility of extensive repairs, all have to be weighed against the advantages of using new equipment. Even when the advantages are clear cut, there are always the problems of financing, and absorbing write-offs on the books.

Many formulas have been advanced, but they're not easy to apply and cannot be used automatically. These guides, however, are used profitably by companies having progressive modernization policies:

(1) Set your sights high and then trim down your modernization program if necessary. It's not uncommon for replacement checkups to show that where one new machine will pay for itself in five years, a new plant or completely re-equipped plant, will pay off in three.

(2) Don't let book values dominate your thinking. Many managers hesitate to scrap equipment with a high unamortized value on the books even though replacement can bring operating economies.

(3) Avoid overemphasis on a short payoff. Many companies insist that replacements pay for themselves in two or three years. Some replacements, of course, are on short-life items where technological advances are expected, and these must pay off rapidly to be justified. But a two- or three-year payoff on longer-lived facilities may delay needed improvements beyond the safety point. It puts a tremendous burden on new equipment to justify itself, may prevent valuable cost savings.

(4) Practice better salvaging to decrease replacement costs. In some cases the greatest savings, tax-wise, can be obtained by completely scrapping certain used equipment. But in many instances minor repairs and rebuilding will boost the sales value of used equipment, cut the spread between sale and book value.

(5) Don't overlook "indirect" advantages of new facilities. While direct labor cost is the chief consideration in most replacements, other advantages are: less spoilage, reduced inspection, spacesaving, greater flexibility in performance, reserve capacity, and improved worker morale.

(6) Follow up on replacements. Keep track of the operating results with new facilities for at least a year, with a careful record of performance against estimates. Make your own replacement yardsticks from experience.

(7) Adopt more realistic depreciation schedules. While government procedure acts as a barrier to depreciation rates that conform to equipment obsolescence, there is latitude for most companies to get higher rates.

(8) Earmark surplus account for new equipment. Owing to generally low depreciation rates, and difficulties in forecasting obsolescence, there will always be a gap between book value and realizable value on old equipment. Some firms earmark part of the surplus account for new equipment. This planning makes it easier to bridge the book-keeping gap between balance-sheet and market values; it eliminates one barrier to maintaining an up-to-date plant.

(9) Take advantage of current interest rates. Long-term loans, low interest, plus equipment financing by leading commercial houses combine to make modernizing practicable.

*Modern Industry*, August 15, 1946, p. 34:4.

## Streamlining the Flow of Production\*

**T**HAT materials handling in the plant eats up from 25 to 40 per cent of production costs is a fact all too frequently overlooked by plant operators. Until management realizes that production is material in motion and learns how to keep it moving efficiently, little progress in cutting costs can be expected. When the modern plant is regarded as a materials handling system, then and then only will it be possible to gouge the deadwood out of the production dollar.

The only way to cut materials handling costs is to streamline the flow of production. A good beginning is to admit that materials handling is a big enough cost to warrant the appointment of a man or committee, who will study your plant layout, analyze production flow, and be invested with the authority to use the kind of materials handling equipment that will coordinate all operations into a smoothly running whole.

Let's enumerate some advantages that accompany the planned application of modern materials handling machinery and methods. You accelerate movement of material in quantity. You coordinate its flow with the speed of your production machines. You shorten the processing cycle by setting the pace of production—a worthwhile objective in itself.

Mechanized handling not only eliminates the cost of *rehandling* individual pieces but also greatly reduces a potent factor that now limits productive effort and worker safety—the manhandling that raises Cain with human energy. Modern handling equipment that brings material to the worker in quantity and takes it away to other

processes in quantity keeps more workers at their machines, producing. It eliminates the necessity for much of their former lifting, reaching, moving, etc., that resulted in wasted energy, time, and money. Thus you have better production control and lower costs.

With today's materials handling tools, time and space can be saved on receiving and shipping docks, in the plant, and in the warehouse by fully utilizing what we call "air rights"—vertical space—stacking to the ceiling, if practical and necessary.

Neat, compact stacking is a sure way to keep better inventory records of raw material, material in process, and warehoused finished products. Modern materials handling equipment goes a long way in cutting down on time and cost of moving material into and out of storage. It pays to high stack and move big unit loads on pallets, skids, or in skid bins, rather than have crews of men pile up stuff piece by piece.

By taking advantage of vertical space in the plant or warehouse, you can eliminate the need for a bay or new wing; eliminate faults in plant layout; double storage capacity; and, again, cut costs.

In addition, when goods are handled as unit loads, trucks, freight cars, and ships can be loaded and unloaded in a fraction of the time taken by a crew to do it. That means a real saving in demurrage charges.

These, then, are the results you may look for when you have delegated someone to streamline the flow of production. So that he may satisfactorily achieve such results, the following in-

\* Excerpts from an address before the Industrial Packaging Engineers Association of America.



formation must be made available to him:

1. To give him a clear picture of equipment in use and to suggest any changes in it that may be necessary:

(a) number and types of materials handling machines now used in the plant; (b) load capacity of each type of equipment and where it is used.

2. Kind of containers used to carry the material.

3. How many loaded containers are handled at one time and per day.

4. Weight handled per load transfer and per day.

5. Number of locations to which materials are moved.

6. Number of men needed to lift, move, and deliver material during each handling step, and how far the material must be moved each time.

7. To enable him to get at costs: (a) length of time required for each move; (b) hourly pay rate per man.

8. To help him lay out routes for each department in the plant he must know the route taken when material is moved. He'll see a lot of wasted travel time that's slowing up production. He may even find that changing the department or plant layout a bit will straighten out many materials handling problems.

9. Number of times material is lifted, moved, and set down during each handling step.

10. Because the following factors change as a product approaches completion, thus sometimes bringing different handling equipment into the picture, he must know: size, shape, weight, and number of units handled individually at each location.

11. Width of the narrowest plant aisle; lowest ceiling height; doorway and elevator dimensions—whether at the loading platform, production area, or warehouse—and any other factors that may limit the size of loads to be handled.

12. Type and condition of floor, yard, or road surface—wherever material has to be moved.

13. Dimensions of all storage areas, number of ramps and their rise, and all physical characteristics of receiving and shipping docks.

14. Method of receipt and shipment of material—whether by rail, truck, or boat.

Lest the analysis become too involved, it may be necessary to limit it to a single department or a single phase of materials handling at a time.

This looks like a pretty big order—and it is. But unless materials handling operations are properly recorded, analyzed, and interpreted, you can't take the kinks out of production, and you can't improve your cost picture.

By A. H. DOBLER. *Shipping Management*, June, 1946, p. 13:4.

#### AMA FALL PRODUCTION CONFERENCE

***The Fall Production Conference of the American Management Association will be held on Thursday and Friday, November 14-15, at the Palmer House, Chicago.***

## More Production for Your Money

**T**YING wage increases to stepped-up production may solve the cost problem of many an employer now faced with demands for increased wages. A scientific and formal production incentive plan is not always essential. In some cases it may not even be the right answer—especially where the workers, or their union, have limited output by setting deliberate brakes on work speed. Management may be able to propose a bargain: a wage increase in return for releasing the brakes on production.

It can be done—as shown by an agreement made by a division of Bendix Aviation Corporation with the Aircraft Workers Union of New Jersey. The contract provided a 12-cent-an-hour general increase in return for a union guarantee that production would be increased by not less than 15 per cent. It also called for a bilateral review of the unit's output six months from the date of the agreement. But it is reported that within a few weeks production rose—and by more than 15 per cent.

Such a simple clause is useful only where the union can be expected to carry out the plan. It would be difficult to enforce a penalty if the production goal were not met. Therefore, it might be better to start with a partial increase and provide for a further boost when the specified production goal is reached—in other words, insert an escalator clause to the effect that further increases will depend on production volume. In most cases, a review of the production record should be made within less than six months, even if there is no escalator clause.

A simple way to make wage increases dependent on increased output is to set up a monthly production bonus. Recently a midwestern metal company installed a bonus plan based on the monthly dollar volume of shipments. This is expected to result in a wage increase averaging 18½ cents an hour. It is not a profit-sharing bonus; the extra earnings are dependent only on the volume of output.

This type of arrangement is more likely to stimulate production than would an annual profit-sharing plan—for two reasons: The influence of the employees' effort on output is more readily apparent than the effect on profits, and the result shows up promptly in the pay envelopes. Note, however, that monthly incentive bonuses must be added to base rate of pay in computing overtime unless they are a percentage of straight-time and overtime earnings.

—Labor Coordinator Bulletin (Research Institute of America) 5/31/46

## "Scrap for Peace" Campaign

**A**CCORDING to the Committee on Iron and Steel Scrap of the American Iron and Steel Institute, the country again faces a drastic shortage of steel scrap—material that is as essential now to provide the raw material of reconversion as it was a short time ago to provide the weapons of war.

Scrap normally makes up 50 per cent of the charge in an open-hearth furnace, from which by far the greatest proportion of steel comes. August 1 saw 25 to 30 open-hearth furnaces idle for lack of scrap, compared with 12 idle for the same reason July 1.

Some factors that have contributed to the depletion of the scrap supply are the coal strike—which caused a larger percentage of scrap than normal to be used in furnace charges—strikes in consuming and fabricating industries, chaotic conditions abroad that hinder the speedy return of battlefield scrap, labor shortage in scrap yards, etc.

Good plant housekeeping will result in the movement to market of urgently needed scrap that may now be lying dormant in factories, warehouses, etc. In stressing the necessity of moving this industrial scrap, the American Iron and Steel Institute calls on industry once again to display the fine spirit of cooperation it accorded the wartime scrap drive.



# Marketing Management

## Public Warehouse Service Eases Distribution Headaches

**I**N the era ahead the success of many companies will hinge upon a variety of factors. Distribution is one of these. It is among the factors most discussed and studied by executives. Never has there been such concern among companies over their distribution functions as now. Bases for this concern are: (a) the realization that more effective distribution systems can make possible more efficient and economical production; (b) the fact that today's potential market is the largest ever encountered and the problems of distribution are more complex.

It is now virtually impossible almost everywhere for a company to rent quarters for branch houses, and the lack of building materials and labor necessary for construction generally prohibits the building of branch houses, no matter where.

*Sales Management* recently conducted a survey among prominent merchandise warehouse operators to develop from them the facts which they feel executives should consider. These were asked:

"What do you consider the advantages of using public merchandise warehouses rather than company branch houses?"

Generalities, such as the fact that merchandise warehouses are located in every major distribution area in the nation and ready to operate immediately when called upon, were cited in most of these replies. However, no fewer than 18 basic reasons were offered. No single argument was cited by more than 75 per cent of the group.

Broken down, the reasons advanced for using public merchandise ware-

houses, in the order of their frequency, are:

1. The manufacturer can realize an actual cash saving through use of public merchandise warehouse facilities.
2. Flexibility of storage space not possible in a company-owned building may be obtained in a public warehouse.
3. Public warehouse charges are made on a per unit basis, allowing the manufacturer to figure his distribution costs exactly.
4. Services of well-trained personnel, experienced in the storage and handling of merchandise and devoting their entire time to this work, are available at the public warehouse.
5. By using public warehouses for establishing spot stocks at many points throughout the nation, the manufacturer is able to make immediate delivery to more customers than he would with a necessarily limited number of branch houses, thus preventing the strained relations and lost sales which might result from his customers' being out of stock.
6. While branch warehouse facilities are hard to find in many cities, there are public merchandise warehouses in almost every city of any size throughout the land.
7. In a public warehouse the manufacturer is guaranteed responsibility in the handling of his merchandise.
8. Merchandise warehouses are equipped to offer all the services which a branch house affords—and to perform them, as a rule, at less cost to the manufacturer.
9. At a public warehouse the manufacturer may obtain warehouse receipts for use as collateral, thus making it possible to "turn his goods into cash" even before they are sold—which he cannot do if the goods are stored in company branch houses.
10. Through an accredited list system the warehousemen can fill orders without referring them to the home office, when this service is desired, thereby speeding up service to customers.
11. The use of a public warehouse relieves the manufacturer of worries, such as labor problems, etc., which often accompany the administration of a branch house.

12. The public warehouse has all the necessary facilities for storing and handling merchandise—facilities, in many cases, which the manufacturer could not afford at his branch house.
13. Public warehouses are located on railroad sidings and, in port or river cities, at the docks; this eliminates intermediate transportation charges.
14. As a rule, lower insurance rates are obtainable in public warehouses than in branch houses.
15. Most public warehouses today provide office space for rent, so that the manufacturer can keep his sales force near his merchandise.
16. Public warehouses will store different grades of merchandise separately, provide local delivery service, and otherwise expedite the handling of merchandise.
17. They will survey local conditions and supply the manufacturer with jobbing lists, local traffic data, and other information more readily available to them than to a branch house manager.
18. They will provide almost any extra service, such as repackaging, stenciling, weighing, C.O.D. collections, etc.

*Sales Management*, July 15, 1946, p. 104:5.

## How Should Salesmen Be Paid?

**R**ESULTS of a recent survey of the members of the Sales Executives Club of New York, made in conjunction with the First National Marketing Forum, showed the bonus plan to be overwhelmingly favored as the most equitable form of salesmen's compensation—this plan receiving 65½ per cent of all votes cast. The drawing account was favored by 14½ per cent; straight salary, by 11 per cent; straight commission, by 9 per cent. A query as to the application of these forms of compensation both in the members' own industries and their own firms revealed no change in the ratings.

Sales executives vary in opinion as to their right to change salesmen's compensation, more than 45 per cent believing such action to be beyond their jurisdiction. Primarily on special deals could compensation be changed, the survey showed. Opinion strongly favored consulting the salesmen before any changes are made in the compensation basis. A maximum limit on salesmen's earnings was disapproved by a margin of more than five to one.

Two-thirds of the executives polled felt the salesman should receive full credit for orders either mailed or

brought in personally by customers, one-third favoring half credit.

A uniform policy on expenses is advocated, 72 per cent having such a procedure in effect. Among the remaining 28 per cent, over half of the variations are based on a territorial difference. Three companies out of every four provide salesmen with an expense account requiring an accurate accounting of out-of-pocket expenses, the rest being divided about equally between those which provide an additional compensation to cover expenses and those giving a flat amount to cover specific periods.

Given five alternatives for judging the ability of an applicant—with only one to be checked—45 per cent favored man-to-man judgment; 20 per cent, aptitude tests; 20 per cent expected to adopt aptitude tests eventually; 10 per cent felt they were valuable but not applicable to their business; about 5 per cent did not believe in the tests at all.

Almost unanimously approved were payment during a salesman's training period—86 per cent of executives giving sales trainees full pay—and accordance of full credit to a salesman for

any sale made even while accompanied by an instructor.

In most cases, salesmen's quotas are established on the combined basis of three factors: exact knowledge of potentials, past performance, personal judgment of the sales manager—the first or third being the most common basis where only one method is used.

When special deal promotion sales are consummated, most companies either pay the salesman his regular

compensation or give him extra pay. Very few reduce the compensation.

Fear psychology, the "get-business-or-else" technique, is definitely frowned upon by the sales executives—only 3 per cent stating that they employ it.

Contests among salesmen received approval in 47 per cent of the cases, were tolerated in 35 per cent, and aroused resentment in 18 per cent.

*The Advertiser's Digest*, May, 1946, p. 20:3 (condensed from *American Paper Merchant*).

### Veterans Pre-Tested for Sales Aptitude

WHERE can an ex-serviceman learn whether he has the general characteristics found in successful salesmen? Where can an employer find a central list of veterans who have been tested and found to be sales-minded? In St. Louis the Sales Managers' Bureau of the Chamber of Commerce provides the answers with the Veterans Screening Service, established last July by the Bureau on operating funds supplied by 51 concerns.

The screening service is not an employment agency, nor can it be considered an attempt to supply broad vocational guidance to the veteran. It is a time-saver for the veteran who thinks he wants to sell, but who wants to be tested before he pounds the pavement in search of a sales job.

After a poll of interested members of the Bureau, the following tests were selected: Strong Vocational Interest Blank, Kuder Preference Record, Bernreuter's Personality Inventory, and the Otis Self-Administering Test of Mental Ability. These tests are given to groups of veterans several days each week.

For the veteran, the screening provides three services:

1. It gives him the means to decide whether he has potential sales ability. It helps him to take the guesswork out of selecting a career and heads off fruitless searching for a sales job if he is not qualified.
2. The screening report gives the qualified veteran a definite sales tool to use in seeking a sales job.
3. A central file of screening reports provides all employers in the area with an excellent source of manpower.

In the post-screening interview, counselors remind the veteran that the results do not include measurement of either "drive" or selling ability, and that these two factors could very well change the value of the information the tests give to him. They also remind the veteran that most progressive companies provide a training program before they send a man out to sell. Furthermore, appropriate examples are used to illustrate the absolute need for motivation if a man is to be a successful salesman. This is particularly important to the men whose profiles may not appear to be ideal for selling. When a veteran expresses a genuine interest, counselors try to help him discover which field of selling he should investigate for a job.

—Sales Management 4/15/46

• A WHILE back an article in the *Journal of Engineering Education* pointed out that if a frog is placed in a pan of cool water set on a stove, and the temperature is gradually raised, the frog may be killed even though it could have jumped out of the pan at any time in the process. One may, like the frog, become unaware of gradual changes about him and complacently believe that present methods are efficient.

—The Clarkson Letter 6/46

## Manufacturers' and Distributors' Salesmen Cooperate

VISITS from factory men having increased tremendously since the end of the war, officials of the McJunkin Supply Co., Charleston, West Va., and the Union Hardware & Metal Co., Los Angeles, have taken steps to insure that the time of the manufacturers' representatives will be utilized to advantage.

Each company worked out its system with the same objective in mind—to eliminate wasted time for both distributor salesmen and manufacturers' men. Both firms stressed the fact that they recognize factory men as important allies in selling and that they are anxious to have their assistance.

The McJunkin Company's action was extremely simple. A letter explaining the company's position was drafted and sent to all major sources. The response was immediate and, according to McJunkin officials, very favorable. Manufacturers agreed the plan was good and pledged their support. The plan was explained to manufacturers as follows:

1. Whenever possible, manufacturers' salesmen will meet with our salesmen at noon on Saturday to discuss products of your manufacture and make arrangements for the following week.
2. Our salesmen will work only with factory representatives of major lines we expect to stock and distribute. We consider you one of these manufacturers.
3. Definite arrangements as to arrival time and length of time to be spent with our organization must be made at least two weeks in advance.
4. We are to outline the itinerary and activities of your representatives during the period of time he works with us.

In operation the system offers several benefits. After a manufacturer notifies McJunkin that his representative will be in Charleston at and for a specified time, the distributing company officials work out detailed plans for his activities. All the salesmen are notified of an approaching visit and calls are scheduled.

The Union Hardware & Metal Company's plan also is simple but effective. It, too, is designed to eliminate guesswork and misunderstanding in the coordinating of the efforts of salesmen and manufacturers' representatives.

When a manufacturer's man calls or writes to ask for an opportunity to go over the territory with some of the salesmen, the sales manager brings out his sales help appointment blanks. He then makes up a series of appointments for salesmen. The appointments are ironclad "musts", under no conditions to be side-stepped by salesmen.

In the line "subject" is entered the manufacturer's product on which the salesman and the representative will center their efforts. The salesman's name is then entered, as well as the day and date of the appointment. This is followed by the name of the representative with instructions about the place and hour of meeting.

The original and one carbon copy are then given or sent to the salesman and he is required to sign and return the copy at once to the sales manager, showing that he has received the instructions, will be on hand at the appointed time and place, and knows whom he is to meet and what product they are to concentrate on. The manufacturer's representative is also furnished a list of the salesmen he is to meet—showing when and where.

The signed appointments take precedence over everything else in the salesman's own plans for his activities. He must not only be there promptly to meet the representative, perhaps for the first time, but must devote his whole time and attention to the item or line involved, and take the representative to those outlets where joint calls will bring the best results.

—Mill Supplies 4/46

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• **THE SALES MANAGER** is securing greater recognition. A study made in 1920 revealed that 7 per cent of the executives in charge of sales departments held the rank of vice president. Today, in over 50 per cent of the companies studied the chief sales executive is a member of the board of directors.

—The Clarkson Letter 6/46



# Financial Management

## Internal Auditing for Disbursement Control

**M**ANY firms disburse during a year an amount of money greater than the total assets of the firm. This revealing comparison emphasizes the opportunities for control in establishing and maintaining the proper internal audit of cash disbursements.

Much emphasis has always been given to an effective audit of receivables with numerous controls and necessity for detailed checking, but much less attention has been paid to the large portion of this money that is disbursed.

An adequate system of auditing of disbursements should not be based on the assumption that accounts payable handling meets a minimum standard. Neither should it be assumed that there is proper protection against unauthorized expenditures. A detailed follow-through is necessary to obtain the desired control and elimination of needless or unwise disbursements.

At the Continental Oil Company, experience has shown the necessity for obtaining more than a good test check of expenditures. Many methods have been used by the internal auditing department in reviewing cash disbursements, but only one method, a continuous audit, seems to be satisfactory. An auditor permanently assigned for a continuous audit saves time and money as compared to several auditors covering a less comprehensive portion of the business in an extended period.

Until the time when checks are signed, dated, and mailed, invoices are in a physical position for an accurate job of auditing. After pay items and checks become separated, it is a difficult task to bring them together again for comparison and checking. If the auditing work is performed before the

checks are mailed, it is obvious an effective and economical job can be done with minimum effort.

The effectiveness of the cash disbursements audit depends considerably upon the quality of the accounts payable system. There are several basic requirements important to carrying on the work from day to day. A good accounts payable system embodying all the desirable objectives greatly assists in an accurate and dependable audit.

Following are seven basic principles of a good accounts payable system:

1. Probably the first and most important requirement is the arrangement for an automatic internal check or control. It is essential that the work be segregated. In addition to one employee checking the work of another employee, important phases of the system should be handled by different sections or divisions of the organization.
2. A good accounts payable system must be flexible in order to take care of unusual payments, such as those for rush or emergency handling, deferred payment items, and to allow for proper departmental segregation. The system should be arranged so unusual situations may be taken care of without interference with the regular routine payments.
3. The best available machines should be used to insure speed and accuracy. Many machines are on the market for preparation of checks. Only the ones best suited to the system should be used to prevent loss in time and money.
4. There is economy in the proper handling of items for deferred payment, payments with specified discount due dates, and net 30-day items. The correct method for accumulation will reduce the number of checks. At the same time it will be sufficiently flexible to pay any accumulated item on a moment's notice without interference with the system.
5. Special attention should be given to the reference feature. Much unnecessary work can be done in attempting

to provide information for reference purposes as well as in making the actual references. Under most present systems, copies of checks take the place of the old method of posting payments to vendors on various kinds of records.

6. A well-organized purchasing procedure should be behind a good accounts payable system. The internal control features are of prime importance, and a sharp distinction should be made between responsibilities of the purchasing department and those of the accounting department.
7. A well-prepared, written accounts payable routine is essential. Definite instructions should be issued as to the proper handling of pay items. They should include an authorized disbursement approval schedule that would allow no deviation. This routine should be kept up to date as policies and procedures change. A complete, detailed routine assists the auditor of disbursements in keeping everything in conformity. It helps the accounting organization train new or transferred employees.

As part of the auditing technique, it is as important to have a well-balanced auditing manual as it is to have a good accounts payable routine. The auditing manual should give specific details on all necessary features and should be used as a guide in getting complete and desirable results. Consideration should be given to elimination of all unnecessary checking, as there is a tendency to over-emphasize the importance of some details.

The work program must be dovetailed with the other internal auditing work to avoid duplication of checking in the various departmental audits. In other words, the work of the auditor of disbursements must be coordinated with that of the other internal auditors.

Regular reports, presented to the general auditor, should contain exceptions taken in the ordinary course of business as well as those instances where additional investigation is advisable. Corrective action, necessary as a result of these reports, can be under-

taken with various departments. If an organization's auditing functions are entirely separated from the accounting, and the general auditor reports to someone apart from the accounting head, the corrective action will be more effective.

The Continental Oil Company has received numerous benefits from establishment of a continuous audit of disbursements in addition to a saving in time for an over-all audit. Quite a few money-saving devices have been developed. Some of these are:

1. Savings made by giving proper attention to cash discounts including adjustments on sales taxes.
2. Expense account control has been improved by standardization of receipts, methods of reporting, etc.
3. Uniform accounting on cost-plus contracts has been established.
4. Proper check of items for previous payment has been instituted. Duplicate payment refunds have been handled to best advantage.
5. Procedure for handling monthly credit purchases has been unified and simplified.
6. Special emphasis has been given to the necessity for issuance of orders before or at time of receipt of material and/or labor.
7. Orders have been eliminated on items where they were unnecessary.
8. Duplications of check of calculations have been eliminated.
9. Calculations check has been confined mainly to calculating machine operators.
10. Some types of bills have been handled to advantage by accumulation and payment on recapitulation sheets.
11. Approvals on invoices covered by formal purchase orders have been confined to initials.
12. Departmental separation of pay vouchers has been made to allow for ease in posting, filing, and reference.
13. Minimum amounts have been established for approval or check of transportation bills, tax items, etc.
14. Handling of corrections and adjustments on vendors' invoices has been simplified.
15. Substitution of emergency orders for formal confirming purchase orders on some classes of items has improved the purchasing procedure.
16. A considerable reduction in the num-

ber of approvals has been effected on some items. This has resulted in simplified handling.

17. Penciled expense accounts, inter-departmental memos, recapitulation sheets, etc., have been encouraged where practicable.

To summarize, disbursements audit-

ing should be a continuous function to control expenditures properly, to prevent losses through unwarranted spending, and to aid in improving office procedures.

By WILLIAM E. SEXTON. *American Business*, July, 1946, p. 12:3.

## Who Gets the Consumer's Dollar?

THE results of a popular poll, announced recently in the press, indicate that in nearly three cases out of four the "man on the street" who has an opinion on the subject believes that capital receives a larger share of the products of industry than labor—that, after all other costs are paid, capital gets more than half of what is left, and labor less than half.

Any such belief is so grossly at variance with readily available facts that it would seem almost superfluous to refute it. Yet, as long as such beliefs are widely held, they are the foundation on which the political, social, and economic actions of the people are based; and, unless they are dispelled, the affairs of a democracy can hardly be expected to proceed on a reasonably intelligent basis. The effects of industrial unrest are tragic enough in any case, but they are doubly tragic if they arise from such profound misconceptions as this.

The apparently prevalent idea that capital rather than labor receives the major share may be due in part to careless or biased reading of the available data. Wages in manufacturing industries amount to considerably less than half of the "value added by manufacture" as reported in the Biennial Census of Manufactures. In 1939, the last census year, wages totaled \$9.1 billion, or less than 37 per cent of the value added by manufacture. (Value added by manufacture is defined as value of products less cost of materials,

containers, fuel and purchased electric energy and, in recent years, cost of contract work.) Hasty consideration might lead to the conclusion that these costs, together with wages, represent approximately the total cost of production and that the value added by manufacture therefore measures the return to labor plus the return to capital. If this were the case, the return to capital would in fact be considerably larger than the return to labor.

Such unadjusted census figures are completely inaccurate as a measure of the distribution of the consumer's dollar in manufacturing industries. The cost classifications just mentioned do not include taxes, depreciation, depletion, or miscellaneous costs. The item of wages includes no salaries. And the picture is further distorted by the fact that the products of some industries are the materials for others, with the result that the total cost of materials and the total value of products include duplications estimated at roughly one-third of the gross value of products. No corresponding duplication exists in the total amount of wages paid or in the value added by manufacture.

To present a truer picture of the actual distribution of costs and profits in manufacturing, the National Industrial Conference Board has compiled figures based in part on the census data, but with duplications eliminated, salaries included with wages, and value added by manufacture broken down

into its constituent elements of cost and profit. The resulting figures indicate that in 1939 more than 64 cents of the consumer's dollar went to pay for materials, fuel, purchased energy, depreciation and depletion, taxes, and miscellaneous expenses, exclusive of interest and labor costs; nearly 31 cents went to pay wages and salaries; and less than five cents remained for interest, dividends, and profits for reinvestment in business operation. The return to capital, instead of exceeding the return to labor, amounted to less than one-sixth of the return to labor.

The most comprehensive data bearing on the distribution of income between labor and capital, though not the most indicative of the true relationships, are the estimates of national income and national product compiled by the Department of Commerce. These estimates show that the compensation paid employees by all private concerns in 1944 for each dollar of private production was 52 cents. Overhead costs absorbed 13 cents; excise and sales taxes, 5½ cents; and corporate income taxes, nine cents. The remainder consisted of six cents of corporate profits and 14½ cents of net income to proprietors. If these last two items are taken as measuring the return to capital, then capital received 20½ cents, as against 52 cents to labor.

These figures, however, seriously overstate the return to capital and understate the return to labor. The net income of proprietors, including farmers, covers not only the return on the proprietors' investment but also a large element of compensation for their personal services. It is impossible to separate these two items, but the amount properly attributable to personal services must be a large part of the total.

The true picture, as the Department

of Commerce points out, can be more clearly shown for the corporate segment of the economy alone. Of each dollar of corporate production in 1944 (that is, of the value added by corporations, with materials and services purchased from non-corporate sources excluded), employees received 61 cents; overhead costs amounted to 11½ cents; excise and sales taxes, five cents; income taxes, 13½ cents; and net profits, nine cents. The return to labor was nearly three times the return to capital before income taxes and nearly seven times the return after income taxes.

The foregoing comparisons deal exclusively with the private sector of the economy. If the activities of governmental bodies are included, the relative share received by labor continues to show a heavy preponderance. During the period from 1929 to 1945, inclusive, the share of total national income received by employees ranged from a low of 64 per cent in 1929 to a high of 79 per cent in 1932, with an average of 70 per cent for the entire period. The share received by capital ranged from 21 to 36 per cent, with an average of 30 per cent. The distribution in 1945 was 71 per cent to employees and 29 per cent to owners and investors, or nearly 2½ to one. These figures, like those cited previously, overstate the return to capital because of the inclusion of the total amount of proprietors' earnings in the capital category.

As a gauge of the fairness or unfairness of distribution of income, these figures obviously have little meaning. There would be no inherent fairness in an equal distribution of income between labor as a whole and capital as a whole. If rates of return to labor and capital were perfectly uniform, total returns would clearly depend on the relative quantities of labor and capital employed



in different industries and areas. Under the conditions that exist in the United States today, an equal distribution of total income would be grossly unfair to labor, if fairness were measured (as it must be in a free economy) by the market value of services rendered.

The comparisons shown above are of interest primarily as an indication of the shocking misconceptions regarding elementary facts that appear to underlie

much of the current economic and political unrest. If the nation is to recover from the effects of war with a minimum of further industrial prostration, there is an urgent need for more effective means of bringing such facts to the attention of those who work and those who vote.

*The Guaranty Survey* (Guaranty Trust Company of New York), July 31, 1946, p. 1:3.

## Insurance

### Labor Disputes and Unemployment Insurance

NO ONE is entitled to unemployment insurance who is unemployed because of a labor dispute. In most of the 45 states which collect unemployment insurance under a merit rating system, this disqualification is total and remains in force as long as the labor dispute itself continues. Even though the worker himself disapproves of the strike and does not want to go out, or stay out, the disqualification still holds.

The term "labor dispute," however, is differently interpreted in different states. Only by knowing the extent to which this disqualification can be applied to bar benefit payments to striking workers, can merit rates be protected against mass charges. Remember that, as is the case with other disqualifications, the burden of proof rests with the employer. Following are the main factors to consider:

1. *Scope of disqualification:* In most states, an individual is disqualified from benefits for any week in which his unemployment is *due to a stoppage of work resulting from a labor dispute in*

*the company where he was last employed.* A "stoppage of work" is usually interpreted to mean a substantial diminution of the activities—at least a 30 per cent to 40 per cent decrease in operations—of the plant as a whole. If the dispute causes a decrease in operations not appreciable enough to be considered a "stoppage," the disqualification cannot apply.

In other states the disqualification applies even though there is no "stoppage of work." It is enough if the unemployment is due to a labor dispute in active progress where the claimant was last employed.

2. *Meaning of "labor dispute."* It is more than a mere disagreement; negotiations between the parties do not themselves constitute a labor dispute. A dispute must involve a *demand* or *insistence* on some matter, initiated by either party and a *refusal* or *resistance* of that demand by the other party. If either party complies with the demand there is no "dispute," even though men are thrown out of work as a result of the compliance. The resistance may

take the form of refusal, offering a counter-proposal or ignoring the demand—or may be enforced by an overt act like a strike by the employees or a lockout by the employer. Some states do not regard a lockout as a labor dispute and therefore *don't* disqualify claimants who are locked out.

*The burden of proof is on the employer to show that a labor dispute exists.*

3. *Where must the labor dispute occur?* A claimant is disqualified only if the labor dispute occurs on the premises at which he is or was last employed. Where an employer operates in only *one building*, this provision creates no problem. But where a firm's activities are spread over various buildings and plants in the same or different cities, the result depends on whether the operations of the various units are *functionally* so integrated that if one unit stopped the others could not continue operating.

Ordinarily the labor dispute disqualification will not be applied to an individual who is unemployed because of a labor dispute at some *other employer's* factory or establishment. This is true even where the plants of different employers are so closely integrated or controlled through stock ownership that a labor dispute at one causes unemployment at the other. However, where the state agency determines that the various corporations constitute a single subject employer under the law, then the rule of functional integration can be applied by those states which follow it.

4. *Unemployment must be due to labor dispute.* The disqualification will be applied only if the employer proves that unemployment is *due to the labor dispute*. Thus, where work is available for them, employees who leave their jobs, or refuse to come to work, or

serve on picket lines, because of a labor dispute, are disqualified.

5. *When does a labor dispute end?* A labor dispute is usually considered to be ended when the parties come to an agreement. Thereafter, employees who were out of work because of the strike *become entitled to benefits* (if they meet the other eligibility requirements) *until such time as operations actually resume*. A labor dispute is likewise terminated if an employer winds up the business or *removes the plant* to another state.

6. *Duration of disqualification.* In all states except Louisiana, Pennsylvania, New York, Rhode Island and Tennessee, the disqualification continues throughout the labor dispute, and terminates when the labor dispute ends.

However, even though the labor dispute continues, the disqualification may end if the employee returns to work, the employment relationship is ended, the worker takes a job elsewhere during the period of disqualification, or if a new and independent cause of unemployment intervenes—as when the employer moves to another state, or the industry's usual slack season sets in.

7. *Workers exempted from disqualification.* Most states provide claimants with an "out" from disqualification if they can prove that they were not involved in the labor dispute that caused their unemployment. The usual provision requires the claimant to show that:

He is not *participating in, financing, or directly interested* in the labor dispute which caused his unemployment. Membership in the union is generally sufficient to disqualify him, even though he disapproves of or does not himself actively participate in the dispute.

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lective bargaining agent for all employees, both union and non-union employees are considered bound by the union's acts and are disqualified.

Striking, picketing, engaging in sympathy strikes, and accepting strike benefits constitute participation in the dispute; in most states, refusal to cross picket lines is deemed to be sufficient participation in the dispute to warrant disqualification from unemployment benefits.

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*What to do:* If a labor dispute results in the unemployment of workers, notify the state agency. The circumstances may be such as to justify benefit payments to claimants, but unjustifiable claims can be avoided if the facts of the case will support arguments along the following lines:

1. If all employees belong to the same union or have the same bargaining agent, they are all *participating* in the dispute and will benefit from it.

2. If there are two unions in the plant, one striking and the other refusing to cross its picket lines, the non-strikers should also be disqualified because they are conducting a *sympathy strike* in support of the strikers; they are *participating* in the dispute by their voluntary refusal to work; they are *directly interested* in the dispute since they will benefit from any settlement;

or they belong to the *same class* or grade of workers as the strikers.

Incidentally, if an employer has no dispute with his employees, but a picket line is thrown around his plant by striking workers of another company, it is *possible that workers who refuse to cross the picket line will be granted benefits*. The labor dispute disqualification relates to disputes *at the factory, establishment, or other premises* where the worker is employed. However, it may be possible to present a case for disqualification on the ground that the workers have *brought* the dispute to the establishment. It may be possible to show that the workers are in effect conducting a sympathy strike to aid the other group, and that the employees are directly or indirectly interested in the strike in that they will benefit from any settlement.

Finally, if it will take a few weeks to resume operation at the plant after the settlement of a labor dispute, employers may become subject to mass charges by payment of benefits to employees for the intervening period of unemployment, as noted above. This fact might be considered in setting the effective date of the agreement settling the strike.

Reprinted from *How to Reduce Payroll Taxes Under Merit Rating* by special permission of the Research Institute of America.

## Rising Property Values Require Added Insurance

**B**UILDING costs are soaring and that, to the alert insurance buyer, means just one thing: Inflated replacement costs demand that insurance coverage be increased accordingly so that complete protection may be maintained.

The extent to which building costs have shot up is reflected in the following figures which represent the percentage increase in building costs which has taken place from 1939 to 1945 in eight cities: Atlanta, 60 per cent; Boston, 32 per cent; Denver, 29 per cent; Hartford, 38 per cent; Milwaukee, 39 per cent; Omaha, 35 per cent; Richmond, 37 per cent; Washington, 44 per cent.

It is obvious, from these figures, that an insurance policy which is based on values considered adequate in September, 1939, should be increased by 27 per cent to 60 per cent, depending on locality and type of construction, to bring it in line with present replacement costs.

—Fire Insurance Facts & Trends (The National Board of Fire Underwriters) 4/46

## Key Man Insurance

**I**T is true that many companies recognize the value of their key employees, but in general a pressing need for "key man" insurance coverage has not as yet been felt by the average business administrator. Management is now becoming aware, however, that key men are one of the most important elements in the success of the business, and it is also aware that a key man will wear out just as certainly as plant and equipment will depreciate. Just as it is found not only desirable but necessary to amortize the depreciation of tangible business assets, management is beginning to recognize the need for amortization of the earning power of the men who make the business a success. This earning power will depreciate with age, and may be suddenly cut off by death. If some way is not found to create a fund to replace the loss of this key man, at some future time it will become necessary to meet this expense out of current income, which is frequently difficult and embarrassing. Management's only alternative is to purchase a policy on the life of a key man which will serve as a kind of insurance in the event of the man's death, and as a means of amortization in the event he reaches an age at which he is no longer economically valuable to the business.

Business failures result, in the main, from personal rather than impersonal causes. Rarely does the deficiency lie with the physical assets of the firm; it arises more often because of some detriment to the ability of certain men in the organization to create profits. Since these men are the life blood of the business it is obviously even more important to insure them than to carry fire insurance on physical property. Practically every firm carries fire insurance;

yet the likelihood of a fire occurring before the loss of a key man is about 20 to 1. Furthermore, the fire loss is seldom 100 per cent, whereas the key man's death is always a 100 per cent loss. What is needed is a process of education whereby management will be made aware of the fact that success or failure is always completely dependent upon the functioning of its key men.

There are many attendant advantages to the use of key man insurance and needs that are not apparent at first glance. Though the policy is primarily intended to reimburse the firm for the loss of the services of the key man, this type of insurance may also be used as an incentive plan for certain employees, whereby a retirement fund will be created for them if they survive. In effect, this type of insurance is the creation of a pension trust. True, the corporation receives no deduction during the accumulative years, but neither does the man pay any tax on the amount accumulated for him, and at his retirement age the corporation may cash in the policy, receive the money tax free, and pay him whatever had been anticipated as a pension. The company will receive a deduction on the amount of pension so paid.

A variation of this type of plan is the use of key man insurance as a means of providing additional personal insurance for the man. If the corporation paid the amount of premium to its key man as additional compensation, it would be taxable income to him in the year of receipt, and he would have only a portion of it left with which to buy insurance on his own life. This is particularly pertinent now that personal taxes tend to rise above corporate taxes in many instances. At the man's death, the corporation receives the proceeds of



the policy. In accordance with the so-called widow pension plan, the corporation may determine to continue the salary of the key man to his widow for a reasonable period of time, say two years, and receive a full deduction of the amount paid to her. Whether or not the company uses the insurance proceeds for this purpose is of no concern. The fact is that it will receive from the insurance company an amount sufficient to enable it to continue this salary payment without financial sacrifice to the corporation.

A use of key man insurance not generally employed is in a situation where a sole proprietor executes a buy-and-sell agreement whereby certain of his employees carry insurance on his life, payable ultimately to his beneficiaries, in payment for the business. Generally, these individuals feel that they have fulfilled their obligations by carrying insurance in an amount sufficient to pay for the business. However, they overlook the fact that the sole proprietor is the most important key man in his business, and it is a necessity to have key man insurance payable to the newly organized firm in order to replace the loss of this valuable man. Without this type of insurance, there is a great danger that the new business they have received may be worthless because it may be difficult or impossible for them to obtain credit, or to carry on their normal functions of business activity when the sole proprietor is no longer there to lend them influence and guidance.

Key man insurance affords a means of creating a cash surplus account in the corporation without fear of the possibility of an excessive accumulation of undistributed surplus. This insurance is a hidden asset with the yearly increase in cash values not subject to

income tax, and in addition offering the safest type of depository with which the corporation may invest any surplus funds.

This type of insurance is particularly valuable in the floating of stock or bond issues. For example, if it is intended that certain bonds will be amortized over a period of 20 years, it is a desirable procedure to insure the key man in the business by covering him with a 20-year endowment policy. If he lives, the funds will be available to redeem the bonds. If he dies, there will be a fund available for their immediate redemption whenever his death occurs, even if it be shortly after the issuance of the bonds. This process will help materially in creating a good market for new issues of securities. If it is not contemplated that any securities be issued, it is still frequently advisable to insure a silent partner in the firm so that the loss of his financial influence will not be detrimental to the organization in the event of his death.

Key man insurance is most necessary when it is desired to obtain credit. As a matter of fact, many banks now require insurance coverage of the key man before extending commercial credit. If it is purchased in an amount to cover outstanding bank loans, it will always prevent financial embarrassment in the event of the death of the key man. Incidentally, key man insurance is its own line of credit, because the increasing loan and cash values create a fund that becomes more valuable each year. In the formation of new business, it is most important that insurance be placed on valuable men—otherwise an unexpected death may cause the new firm to fail before it has even had a chance to get started.

BY DAVID B. FLUEGELMAN. *Insurance Advocate*, September 7, 1946, p. 24:2.

## Decision Upholds Experience Ratings for Former War Plants

A DECISION of interest to corporations which have taken over war industries was made by Deputy Superintendent of Insurance Walter F. Martineau of New York State when he affirmed the decision of the Compensation Rating Board in a case where the appellant had requested the removal of an experience rating charge. The charge (23.1 per cent) was developed by the Adirondack Foundries & Steel, Inc., and was applied by the Board to the Adirondack Iron Co., Inc., on the ground that the former company has a controlling ownership of 66⅔ per cent of the capital stock of the latter company and the two are combined under the rules of the experience rating plan as one "risk." The Adirondack Iron Co., Inc. is a newly organized company which contemplates taking over a government-owned gun plant for peacetime operation as an iron foundry.

The appellant contended that the experience rating rule which requires such combination penalizes the company for an experience which it had no part in creating. It was felt that they should not be burdened with the adverse experience of the Adirondack Foundries and Steel, Inc., which was built up under wartime conditions and on war contracts for the government. The appellant contended that the rule calling for combination was intended for normal, peacetime conditions and should be modified to prevent the hardships brought about by carrying the adverse effect of wartime operations into peacetime conditions.

The Deputy's decision said that the Board has a principle that the experience developed in connection with any risk is an attribute of the substantial ownership of the entity because on substantial ownership rests the power to guide the policies and destinies of the risk. Continuing, he said:

"While it is understandable that the appellant would find it beneficial, and for good reasons, to start at 'manual' rates without the additional charge of 23.1 per cent it must be observed that the experience rating plan works both ways. While some risks develop charges, others develop credits. It would not be desirable from the viewpoint of such 'credit' risks to require them to disregard their experience credit and bear instead the higher 'manual' rates. Such 'credit' risks are more numerous than 'debit' risks.

"In view of the afore-quoted rules of the experience rating plan we are unable to see how the experience charge can be eliminated as the appellant requests without bringing about serious dislocations in the plan that has been evolved over the years to meet the various shifts and ramifications of ownership found in compensation insurance underwriting. Repercussions would be produced in many risks adversely affected giving rise to complaints of unfair discrimination for which we do not foresee any ready or reasonable justification."

—The Eastern Underwriter 5/31/46

## Industrial Cancer Clinic Saving Lives

INDUSTRIAL hygienists are closely watching operation of the nation's first industrial cancer clinic at the Avondale Mills, Sylacauga, Ala. Mill workers, chiefly women, and members of their families voluntarily submit to semi-annual examinations at the clinic, which is financed by Hugh Comer, executive vice president of the company.

The project, started at the request of the American Cancer Society, has already saved the lives of several women in whom cancer was detected in an early stage and its development arrested.

—Modern Industry 8/15/46

- AT THE END OF 1945, 43,000 organizations had group life insurance in force protecting their employees—2,000 more than at the end of 1944, and 60 per cent more than before the war. The total of group life insurance outstanding at year-end was \$22,500,000,000, which is \$7,000,000,000 more than at the end of 1940. Death benefits paid during 1945 were \$171,155,000, an increase of 65 per cent over such payments in 1940.

—Life Insurance Institute 4/24/46